

# BAMBOO CURTAIN OR OPEN DOOR? CHALLENGES AND OPPORTUNITIES OF THE DPRK: PERSPECTIVES OF A BUSINESS CONSULTANT

KEITH BENNETT

Perhaps it is invidious to pose my title in the form of a question: bamboo curtain or open door?

It is not that it is always impossible to establish the truth about the Democratic People's Republic of Korea (DPRK). It is more that, having arrived at the truth, one is more than likely to conclude that the opposite is equally true. As Bruce Cumings, especially in his book *Korea's Place in the Sun: A Modern History* (1997), has explained, probably better than any other author, the DPRK cannot be understood separately from the whole history of the Korean people.

I once heard Dr J. E. Hoare, who in 2001 opened the first British Embassy in Pyongyang, put it well. Speaking to the first—and, regrettably, so far the only—trade promotion delegation from the United Kingdom to visit the DPRK with the official support and sponsorship of Her Majesty's Government, he suggested to the delegation on their first night in Pyongyang that: "Koreans can be somewhat cussed people. If they were not, they would have become Chinese in approximately the fourteenth century." Koreans' behaviour, their self-perception as a nation and a people, has been forged in the belief, by no means misplaced, that they have had to wage a tenacious struggle not to be swallowed whole by their neighbours and other external powers.

Kim Il Sung's assertion, that one cannot properly understand and interpret the DPRK without taking this belief into account, was forged in the days of Korea's colonisation by Japan and of the resistance to that brutal colonial experience. It was against this background that he created his worldview of *juche*. Usually translated into English as 'self-reliance', it is better understood as trying to convey the raising of independence in every sphere of national life and society to the level of ideology.

To offer a contrast to this view, or to refute it, by reference to the very substantial aid and assistance received from the former Soviet Union, Eastern Europe and China over past decades, or from the World Food Programme and other humanitarian bodies, China, South Korea and others in the international community in the last

decade or more, misses the essential point—at least so long as one’s aim is primarily to understand the Korean mind-set. The establishment of *juche* is the goal, and any means or method is acceptable in the service of its ultimate realisation. Hence North Korea can be more flexible, at least in certain areas, a couple of which I will touch on, in the terms and nature of its openness to foreign business partnership than other Communist, and even some post-Communist or non-Communist economies, whilst also being considerably more rigid in many other areas.

Or, to put it another way—it is a case of both the open door and the bamboo curtain.

### **The DPRK’s economic record**

In looking at why investors or foreign businesses might want to take an interest in the DPRK, the first point to be made is that the country has by no means always been a basket case.

For the Japanese, Korea had two pressing advantages as a colony: it was the door to northeast China and the Asian mainland; and it possessed abundant mineral resources. Their approach may have been extractive and exploitative in nature, but the Japanese built mines to get at the resources and railways to get them to port and thence to Japan.

The post-war division of the Korean peninsula left the mountainous north with a perennial problem of how to ensure sufficient food for its people. But that same inhospitable terrain was, and remains, home to an abundance of minerals and raw materials. The successful exploitation of these resources was able in the past to provide the basis for a fairly comprehensively industrialised society, and their rehabilitation through investment could yet sustain the redevelopment of the DPRK’s economy. It was largely on this basis, and for a considerable time after the armistice ended the Korean War in 1953, that the North developed more rapidly than the South, and radical economists and intellectuals in the third world, and a few beyond, professed to see a distinctive North Korean model of development that was, at least in certain respects, worthy of emulation.

Estimates vary as to when the deficiencies and limitations of a primary emphasis on heavy industry, based on a rigid form of central planning and relying overwhelmingly on these natural resources, became manifest. J. E. Hoare and Susan Pares, in their book *North Korea in the 21st Century: An Interpretative Guide* (2005) write that problems began to emerge in the mid-1960s. And, with the benefit of hindsight, they may well be right. Nevertheless, to my admittedly untrained eye on my first visit to the country in 1983, such problems did not seem apparent. Nor, I would say in my defence, was I alone. Whilst, recently liberated from the Cultural Revolution, Chinese friends would bemoan Kim Il Sung’s, to them inexplicable decision to nominate his

son as his successor, labelling it ‘feudal socialism’, in terms of the economy, it was not unusual in China of the early 1980s to see North Korea as something to be aspired to. Hu Yaobang, in many ways the most liberal leader of the Chinese Communist Party, repeatedly said that, in terms of socialist construction, North Korea had done a better job than China.

So the near collapse of their economy in the early 1990s, with all its attendant and related problems, the revolutionary changes among their erstwhile allies, the death of Kim Il Sung, the cruel succession of natural disasters, the decision not only to develop business relations, but also to solicit humanitarian aid from the ‘imperialist enemy’, must cumulatively have come as a severe blow to many, not only materially, but psychologically too.

## **Practical aspects**

Let us look at some of the practical aspects of the question we have set ourselves.

Many people’s first response, when the idea of doing business with the DPRK is put to them, is to ask: “Is it possible to do business with (or in) North Korea?” And: “Do the North Koreans want to do business?” The answer in both cases is: “Yes”.

This may be attested to both by the case studies of actual and successful business that do exist as well as in the field of legislation.

North Korea passed its first law to govern the operation of joint ventures in 1984 and has successively added to its body of legislation to govern foreign investment and related activity year on year, especially since the early 1990s, with regard both to the succession of special zones that have been created in different parts of the country, and for the country as a whole. The body of legislation that presently exists is far from complete, but it is considerably in advance of what many people expect to find and is generally considered to be reasonable and practical in its tone and content. Moreover, once trust has been established, it seems to be increasingly the case that relevant North Korean officials are prepared to accept the need for help from their foreign partners in further improving the legislative framework and in preparing contracts.

Certainly, in my experience, nearly all foreigners, from even remotely relevant circles, be they banking, financial, academic, political, or whatever, will now be asked: “Can you provide training for our people?” North Korean officials have crossed that all-important threshold where they know what it is they don’t know. Their desire to learn about all aspects of a market economy—amongst other topics—is very real.

One area of genuine frustration for the North Koreans is their inability, owing to financial constraints and a lack of support, to send more than just a very tiny number of students to study in the UK. It seems to me unfortunate, and a completely missed opportunity to promote gradual change and foster long-term goodwill, that our government currently seems determined to view North Korea solely through the

prism of the nuclear issue and human rights, as important as these issues undoubtedly are, and will not make even a modest gesture in the direction of enabling more North Korean students to study in the UK and to interact with our banks and financial institutions.

As mentioned, there are a number of areas where, whether by virtue or necessity, North Korea may actually be said to be more open than either China or South Korea.

The legal procedures to establish an office of a foreign law firm in North Korea are much simpler than in China. Two have already opened and at least one more is in the pipeline. Until now, South Korea has completely prohibited foreign law firms from setting up on its territory and is only now retreating from that position under World Trade Organisation pressure and in the context of the negotiation of Free Trade Agreements.

Majority foreign ownership of banks is still impossible in China, but there are two majority-foreign-owned banks in Pyongyang, both involving British capital and both where the foreign party has 70 per cent ownership. (Of course, it is true that the scale of banking activity between the two countries is minimal, but nevertheless the principle has been established.) Although they are strictly off limits to North Korean nationals, the DPRK boasts two casinos, one owned by Stanley Ho in Pyongyang and one by Albert Yeung in the Rajin Sonbong Free Economic and Trade Area in the northeast, which was established in 1991. No such legal venture would be allowed on the Chinese mainland.

The small British oil company Aminex, listed on the Alternative Investment Market and on the Dublin stock exchange, has, on extremely generous terms, been granted exclusive exploration and exploitation rights for onshore and offshore oil and gas exploration, based on production-sharing agreements.

North Korea is happy for businesses to operate 'below the radar', such as British American Tobacco's two cigarette factories. Although hardly a top secret to those familiar with the North Korean business scene, this was reported as an 'exclusive' in the British press in October 2005.

In passing, it must be said that sometimes North Korean flexibility and openness can be ill advised and ill fated. Probably the most extraordinary example was the 2002 establishment of a special economic zone in the border city of Sinuiju, facing the Chinese city of Dandong across the Yalu river. This zone was to have a foreign governor, Yang Bin, a Dutch citizen of Chinese origin. Yang made a series of radical announcements: Sinuiju's existing inhabitants were to be shipped out en masse; the city was to have its own government, made up of a majority of foreigners, including Americans, as well as its own police force; it would have a visa-free regime. It would be a new Las Vegas. Incredible as it might seem, the North Korean authorities appeared to have omitted to consult China about these plans, which clearly held major

implications for Beijing as well as Pyongyang. And even reading the *South China Morning Post* in the months before the Sinuiju announcement would have yielded the information that Yang Bin's luck was rapidly running out in China. Before he could make it to Pyongyang to collect his diplomatic passport, Yang was taken into custody in China, where he is now serving a 17-year sentence on financial and corruption-related charges. Despite periodic press speculation regarding a new appointment to fill Yang Bin's now vacant post, there the Sinuiju project has essentially remained until now.

Returning to more practical matters, I would submit that both parts of our dichotomy between the bamboo curtain and the open door can be equally true.

Getting to Pyongyang is not easy. Probably no other country is today served by just two regular flights per week, reliable, but in small, cramped and ageing aircraft. Likewise, it is probably the only place where, as a matter of routine, you may be required to surrender your mobile telephone at the airport, but where equally you can be sure of getting it back on departure. And, despite the frustrations of getting there, the nail-biting wait for a last-minute visa being one of them, it is also one of the few places in the world where you can feel almost completely safe and where, in contrast to Beijing, you can open your bedroom window and enjoy fresh air. Whilst the internet remains off limits, even to most of your business partners in Pyongyang, a much greater readiness and ability to communicate by email is making practical and ongoing communication much easier.

A more substantial problem, arising in part, but not exclusively, from the country's difficult economic conditions, is what we might call the psychology of business.

Despite the assertion that profit is officially no longer a dirty word, indeed, has been advocated in editorials of the Party newspaper *Rodong Sinmun* and in remarks attributed to Kim Jong Il, the notion lingers among many North Koreans that business is some sort of favour bestowed on the foreigner and its success is to be measured solely in terms of how much money is committed or, more often, pledged by the other side, without regard to the need for that other party to see a return, or at least the prospect of a return, on its investment. On a certain level, that is fair enough. After all, one presumes that the investor has not gone there simply to be charitable either. It's just that a little more subtlety might sometimes pay more dividends.

Besides the fact that the North Korean side is probably both chronically short of cash and under pressure to be earning some, the origins of this somewhat mendicant approach can also be traced, in part, to the situation where most of the DPRK's early joint-venture partners were drawn from the Korean community in Japan. Whatever the reason, 'patriotic donations' to the homeland have formed a considerable part of North Korean business activities. This has carried over into, indeed been compounded by, the economic fruits of the 'sunshine diplomacy' towards the North initiated by

President Kim Dae Jung in South Korea and continued by his successor President Roh Moo Hyun.

The clearest example is seen in the huge subventions paid by the South Korean company Hyundai Asan for the right to develop Kŭmgangsan (Diamond Mountains) as a special economic zone for tourism and the ongoing substantial payments which have to be made irrespective of visitor numbers and return on investment, leave alone the vast sum paid at least via Hyundai Asan before Kim Dae Jung went to Pyongyang for his historic summit with Kim Jong Il in June 2000. That such 'patriotic devotion' has not necessarily bought Hyundai respect or consideration can be seen in the strange case where North Korea threatened to freeze or scrap all Hyundai's projects after its chairwoman dismissed a key executive responsible for dealings with the North for alleged corruption. It is no surprise that the row was subsequently patched up. Inter-Korean relations have their own dynamic, and the North would certainly have been very reluctant to lose such a guaranteed income stream. More sobering was that this game was played out without any apparent regard for those in the international community who might be waiting and watching to see if North Koreans can make reliable and trustworthy business partners.

## **Summing up**

Why should business people think about investing in or doing business with North Korea? On the negative side, they have to consider the criticism that they might face. They have to consider the threat of US sanctions and other obstacles that might be placed in their path, such as the US measures against the Banco Delta Asia in Macao, which forced it to cease dealing with the corresponding accounts and payments for North Korean banks and companies, after handling them for decades. The knock-on effect has practically frozen North Korea out of the international banking system. And simply, why go to North Korea when there is so much choice, when every country in the world seeks Foreign Direct Investment, and when North Korea is right next door to China, which is awash with opportunities?

Against that, as we have seen, there are areas where North Korea can be more flexible than China. Differences of scale can mean, for example, that those for whom the banking sector or the oil industry in China would be beyond their reach may be able to develop such businesses in North Korea. For other companies, which may be successfully operating in China or elsewhere in the region, North Korea can prove to be a relatively straightforward addition, to be administered from a regional office.

North Korea industrialised before China. In distinction to China's situation, the majority of its population is urbanised. In general, wage rates are the lowest in Asia, lower than those of China, Vietnam or Indonesia. And the legacy of the socialist system, whatever the negative baggage it has also left behind, has ensured universal literacy.

Moreover, the residual social welfare structure, even if rudimentary, inadequate and sometimes now honoured in the breach in areas such as housing and health care, which, despite the economic reforms introduced from July 2002 onwards, are still far from being fully marketised in North Korea, constitutes a practical support to the foreign employer, as well as to the local employee, by ameliorating to a certain extent the low wage levels.

Such factors can make North Korea an attractive manufacturing base to supply not so much the still very nascent domestic market as South Korea, China and the Russian Far East as well as Japan, once political tensions are lessened. If the Kaesong light industrial special economic zone being developed in conjunction with the South Koreans performs well, then there will be a very visible and practical illustration of this point.

Finally, and not least, far-sighted and adventurous businessmen understand the potential and long-term advantages and benefits of being the first in. Despite the tensions and high drama of the nuclear issue, China, Russia, South Korea and, in its own way, Japan, are all adamantly against a war on the Korean peninsula, and there seems to be no real appetite for it in the US either, especially after the Iraq debacle and the wider regional tensions in that part of the world. Difficult as it no doubt is, there really is no alternative to a peaceful, diplomatic solution.

A major component of that will be economic. It is not simply a matter of North Korea being paid off for renouncing its 'nuclear deterrent'. The international financial institutions will have a major role to play in rehabilitating the North Korean economy and bringing it to the point where reunification starts to become a viable proposition, rather than an intolerable burden on the South Koreans.

Such an eventuality will lead to major opportunities in just about every economic sector. As a prelude to a smooth process of reunification, one might envisage the creation of a Korean common market, in which North Korea would be an excellent manufacturing base as well, of course, as a major source of minerals and raw materials. Kaesong can be seen as the first example and step towards this.

However, for those who do business in Seoul the question of bamboo curtain or open door will remain.